

Message Text

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FM SECSTATE WASHDC
TO AMEMBASSY ROME
INFO USMISSION GENEVA

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E.O. 11652: N/A

TAGS: FAO, UNDP, AORG

SUBJECT: FAO VIEWS ON UNDP MEETING OF OVERHEAD COSTS OF
TECHNICAL ASSISTANCE PROJECTS

REF: ROME 7222

1. SUGGEST YOU TAKE POSITION WITH FAO, AND WITH OTHER
PERMANENT REPRESENTATIVES AS APPROPRIATE, THAT: A) YOU ARE
PREPARED TO RECEIVE FAO VIEWS, DISCUSS THEM ON INFORMATIONAL
BASIS, AND REPORT THEM TO WASHINGTON FOR CONSIDERATION,
B) THE ISSUE OF REVISION OF MEETING OVERHEAD COSTS IS
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SCHEDULED TO BE CONSIDERED ON INTERIM BASIS BY UNDP GOVERN-
ING COUNCIL IN JUNE 1978, AND TO BE DECIDED UPON BY JUNE
1979 GOVERNING COUNCIL C) THE U.S. HAS NOT YET TAKEN
POSITION AND D) CONSISTENT WITH OUR VIEW THAT TECHNICAL
ASSISTANCE PROJECTS SHOULD NOT BE FUNDED FROM ASSESSED
BUDGETS, WE BELIEVE THE OVERHEAD COSTS, AS PRECISELY AS
THEY CAN BE DETERMINED, SHOULD BE MET BY UNDP..

2. IMMEDIATE BACKGROUND TO JIU NOTE (78/1) CONSISTS OF
A) UNDP GOVERNING COUNCIL DECISION OF JUNE 29, 1977, WHICH
ESTABLISHED A WORKING GROUP ON OVERHEAD COSTS, AND DIRECTED
IT TO RECOMMEND A LONG-RANGE SYSTEM FOR MEETING OVERHEAD
COSTS, PROVIDING A DETAILED DEFINITION OF SUCH COSTS,

ADEQUATE FLEXIBILITY TO TAKE ACCOUNT OF THE SPECIAL SIT-
UATION OF THE DIFFERENT AGENCIES, ETC., AND B) A DECISION
OF THE WORKING GROUP AT ITS JANUARY 1978 MEETING TO REQUEST
JIU TO DRAW UP A PLAN, TAKING ACCOUNT OF THE VARIOUS
FACTORS RESPONSIBLE FOR DIFFERENCES OF OVERHEAD COSTS
AMONG THE EXECUTING AGENCIES, FOR CONSIDERATION BY THE
WORKING GROUP MEETING SCHEDULED FOR JUNE 5, 1978.

3. IN ITS PAPER PRESENTED TO THE WORKING GROUP IN JANUARY,
FAO STRONGLY ADVOCATED KEEPING THE PRESENT ARBITRARY 14
PERCENT FIGURE. (REFTEL NOTES THAT FAO LINKS UNDP WITH
FAO TRUST FUNDS ON OVERHEAD COSTS ISSUE. THE FAO PAPER
SUBMITTED TO THE WORKING GROUP IN JANUARY 1978, HOWEVER,
SHOWS THAT FAO PAID FROM ITS REGULAR BUDGET IN THE PERIOD
1974-1975 ONLY 6.9 PERCENT OF THE OVERHEAD COSTS FOR UNDP-
FUNDED PROJECTS, AGAINST 41.9 PERCENT FOR TRUST-FUND
PROJECTS, AND 22.8 PERCENT FOR WFP-FUNDED PROJECTS.

4. JIU RECOMMENDATIONS ARE PRESENTED AS FORMULAS,
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PRINCIPAL OF WHICH ARE:

A. FOR ECONOMY OF SIZE, AGENCIES EXECUTING MORE THAN 6
PERCENT OF THE UNDP PROJECTS, SUPPORT COSTS WOULD BE
REDUCED BY 0.15 TIMES THE EXCESS PERCENTAGE ABOVE 6; FOR
THOSE BELOW 6 PERCENT SUPPORT COSTS WOULD BE INCREASED 3
TIMES THE FIGURE BELOW 6.

B. ON SIZE OF INDIVIDUAL PROJECTS, SUPPORT COSTS WOULD
BE DECREASED 2 PERCENT ABOVE A DOLLARS 600,000 PROJECT
SIZE AND 3 PERCENT ABOVE A DOLLAR ONE MILLION PROJECT
SIZE, AND INCREASED 3 PERCENT BELOW A DOLLARS 400,000
PROJECT SIZE, SUBJECT TO A MAXIMUM TO BE ESTABLISHED.

C. FOR DIFFERENCES OF COST OF LIVING AT HEADQUARTERS OF
THE AGENCIES, A WEIGHTED AVERAGE OF POST ADJUSTMENT WOULD
BE CALCULATED ON THE BASIS OF PROJECT COSTS, AND FOR EACH
FULL CLASS OF POST ADJUSTMENT ABOVE OR BELOW THE WEIGHTED
AVERAGE THE SUPPORT COSTS OF THE AGENCY WOULD BE INCREASED
OR DECREASED BY 1.5 PERCENT. (AS OF DECEMBER 1977 THIS
FORMULA WOULD HAVE INCREASED THE SUPPORT COSTS OF GENEVA
AGENCIES BY 12 PERCENT, OF VIENNA AGENCIES BY 6 PERCENT,
AND OF UNESCO BY 4.5 PERCENT, WHILE THERE WOULD BE A
DECREASE FOR NEW YORK AGENCIES BY 3 PERCENT, AND FOR FAO
AND ICAO BY 9 PERCENT.

D. PROGRAM PLANNING COSTS AT 1.5 PERCENT OF PROJECT COSTS.

E. PROJECT FORMULATION AT 1.5 PERCENT OF PROJECT COSTS.

F. PROJECT EVALUATION AND FOLLOW-UP AT 0.5 PERCENT OF PROJECT COSTS.

G. OTHER TECHNICAL SUPPORT AT 4.4 PERCENT OF PROJECT COSTS, 2.2 PERCENT IN GOVERNMENT-EXECUTED PROJECTS.

H. RECRUITMENT OF EXPERTS AND CONSULTANTS AT DOLLARS 1,800 PER RECRUITMENT ACTION.

I. PERSONNEL ADMINISTRATION AT 3 PERCENT OF THE EXPERT COMPONENT, A TOKEN 0.1 PERCENT FOR GOVERNMENT-EXECUTED PROJECTS.

J. EQUIPMENT PROCUREMENT AT 3 PERCENT OF THE EQUIPMENT LIMITED OFFICIAL USE

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COMPONENT, A TOKEN 0.2 PERCENT FOR GOVERNMENT-EXECUTED PROJECTS.

K. ADMINISTRATION OF FELLOWSHIPS AND TRAINING AT 5 PERCENT OF THE TRAINING COMPONENT, A TOKEN 0.5 PERCENT IN GOVERNMENT-EXECUTED PROJECTS.

L. ADMINISTRATION OF SUBCONTRACTS AT 1.5 PERCENT OF SUB-CONTRACT COSTS, A TOKEN 0.2 PERCENT UNDER GOVERNMENT EXECUTION.

M. ACCOUNTING AND BUDGETING WORK AT 1 PERCENT OF PROJECT COSTS, NONE UNDER GOVERNMENT EXECUTION.

N. ADMINISTRATION OF MISCELLANEOUS COMPONENT AT 2 PERCENT OF MISCELLANEOUS COMPONENT, NONE UNDER GOVERNMENT EXECUTION.

O. ADMINISTRATION OF COOPERATION AGREEMENTS (A NEW METHOD OF PROJECT EXECUTION RECOMMENDED IN JIU'S EXPERTS REPORT), AT 10 PERCENT OF THE COOPERATION AGREEMENT COSTS.

P. STABILITY ADJUSTMENT PROVISION THAT OVERHEAD COSTS WOULD NOT BE REDUCED MORE THAN 10 PERCENT AS COMPARED WITH PREVIOUS BUDGETARY PERIOD (LIMITED TO TWO-YEARS). VANCE

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